

Message Text

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ACTION EUR-12

INFO OCT-01 EA-07 ISO-00 AID-05 CIAE-00 COME-00 EB-07

FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03

SP-02 CIEP-01 LAB-04 SIL-01 OMB-01 DODE-00 PM-04 H-02

L-03 NSC-05 PA-01 PRS-01 SS-15 DLOS-04 SAL-01 OFA-01

NEA-10 INT-05 OES-03 /117 W

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R 021825Z FEB 76

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 8653

INFO AMEMBASSY ANKARA

AMEMBASSY ATHENS

AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY CANBERRA

AMEMBASSY COPENHAGEN

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AMCONSUL BELFAST

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AMCONSUL LIVERPOOL

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E.O. 11652: GDS
TAGS. PINT, PGOV, OPFOR, EGEN, UK
SUBJECT: JANUARY IN THE UK: UNEMPLOYMENT AND DEVOLUTION
SPELL TROUBLE FOR GOVERNMENT

SUMMARY - UNEMPLOYMENT REACHED A POSTWAR HIGH -- 1.4 MILLION (6.1 PERCENT, UNADJUSTED) OUT OF WORK -- TRIGGERING DISQUIET AMONG UNION LEADERS AND PARLIAMENTARIANS. TO STEM RISING CRITICISM, THE GOVERNMENT PROMISED AMELIORATIVE MEASURES; REFLATION AND IMPORT CONTROLS, HOWEVER, WERE FIRMLY REJECTED. FOUR DAYS DEBATE ON DEVOLUTION EXPOSED INTENSE OPPOSITION TO THE GOVERNMENT'S PROPOSALS WHICH EARLIER IN THE MONTH SPLIT THE LABOR PARTY IN SCOTLAND. THE UNEMPLOYMENT AND DEVOLUTION ISSUES, TOGETHER WITH LABOR'S NARROW MAJORITY IN COMMONS, MAKE THE GOVERNMENT INCREASILGLY DEPENDENT ON THE OPPOSITION'S DEBILITY FOR SURVIVAL. UNABLE OR UNWILLING TO CONFRONT THE GOVERNMENT, CONSERVATIVE LEADER THATCHER SHUFFLED THE SHADOW CABINET, TRAVELED AND UNLEASSED A HARSH ATTACK ON IMPENDING DEFENSE CUTS AND THE SOVIET MENACE. A BREAKTHROUGH IN THE INTRACTABLE NORTHERN IRELAND PROBLEM SEED FAR AWAY AS THE GOVERNMENT RECONVENED THE NI CONSTITUTIONAL CONVENTION. THE COD WAR WITH ICELAND DOMINATED THE INTERNATIONAL SCENE, BUT BY MONTH'S END THE ACTION HAD SHIFTED FROM THE NORTH SEA TO THE CONFERENCE TABLE, THOUGH SETTLEMENT SEEMED BEYOND THE HORIZON. THERE WERE NO MAJOR DEVELOPMENTS ON THE EC FRONT, AND THE GOVERNMENT HAS YET TO REACT OFFICIALLY TO THE TINDEMANS REPORT . END SUMMARY.

1. THE NEW YEAR PRODUCED COMFORTING ECONOMIC NEWS -- A DECELERATING RATE OF INFLATION WHICH IS ON TRACK TO MEET THE YEAR-END GOAL OF 10 PERCENT, GRADUALLY INCREASING INDUSTRIAL PRODUCTION AND A STEADYING POUND -- UNTIL UNEMPLOYMENT FIGURES WERE RELEASED. THEY REVEALED THAT

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CRUDE UNEMPLOYMENT REACHED 1.4 MILLION (6.1 PERCENT) IN JANUARY VERSUS 1.2 MILLION IN DECEMBER. IT WAS A NEW POSTWAR HIGH, AND TRIGGERED GROWING CONCERN AMONG THE TUC LEADERSHIP, CRIES OF OUTRAGE FROM THE PARLIAMENTARY LABOR PARTY (PLP) AND CRITICISM FROM THE CONSERVATIVES. THE GOVERNMENT BOUGHT TIME BY ACCEDING TO A COMMONS DEBATE ON THE ISSUE AND PROMISING A FURTHER LIMITED PACKAGE OF MEASURES FMR MID-FEBRUARY, WHILE FIRMLY RESISTING DE-

MANDS FOR "CONTROLLED REFLATION" AND SELECTIVE IMPORT CONTROLS. THE DEBATE OUTCOME VINDICATED THE GOVERNMENT'S ECONOMIC POLICIES AND underscored the conservative opposition's political debility, but exacerbated divisions within the PLP.

2. SHIFTING AWAY FROM THE MACROECONOMIC DEMAND MANAGEMENT POLICIES PURSUED BY CONSECUTIVE BRITISH GOVERNMENTS, THE WILSON GOVERNMENT SEEMS DETERMINED TO PERSIST IN ITS INDUSTRIAL STRATEGY OF FOMENTING THE BASIC STRUCTURAL CHANGES IT CONSIDERS NEEDED TO REVERSE THE CONTINUING DECLINE OF BRITISH INDUSTRY. PROGRESS TOWARD THIS GOAL IS POSSIBLE ONLY IN THE MEDIUM TERM WITH INEVITABLE COSTS IN TERMS OF HIGHER UNEMPLOYMENT AND DECLINING LIVING STANDARDS. THESE COSTS, IN TURN, SAP THE POLITICAL RESOLVE TO CARRY OUT THE CHANGES. TRADE UNION COOPERATION WILL BE VITAL IN WORKING OUT THE NEXT PHASE OF THE INCOMES POLICY AND IN MAKING IT STICK, AS WILL PLP SUPPORT. AS UNEMPLOYMENT CONTINUES TO RUN AT HIGH LEVELS AND LIVING STANDARDS DECLINE, PRESSURES FROM BELOW ON THE TUC AND THE LABOR PARLIAMENTARIANS WILL INCREASE, LESSENING THEIR ABILITY TO SUPPORT THE GOVERNMENT'S STRATEGY. SOME TIME

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HAS BEEN BOUGHT, BUT THE UNION CONFERENCE PERIOD, WHICH BEGINS IN THE SPRING AND CULMINATES WITH THE TUC CONFERENCE IN EARLY SEPTEMBER, WILL BE CRUCIAL. AS YET IT IS TOO EARLY TO SAY WHETHER THE TUC AND PLP LEADERSHIP WILL BE ABLE TO RESIST THE ANTICIPATED PRESSURES LONG ENOUGH FOR THE GOVERNMENT'S STRATEGY TO SUCCEED.

3. DEVOLUTIOL HAS BECOME A POTENTIALLY CRITICAL ISSUE FOR THE GOVERNMENT. LABOR PARTY SUPPORTERS IN SCOTLAND WHO FAVOR A GPEATER MEASURE OF LOCAL CONTROL, LED BY LABOR MP JIM SILLARS, FORMED A NEW SCOTTISH LABOR PARTY, INTRODUCING ALOTHER DESTABILIZING FACTOR INTO THE VOLATILE SCOTTISH POLITICAL SCENE AND THREATENING LABOR'S CONTINUED ELECTORAL DOMINATION OF THAT REGION. A FRAC- TIOUS FOUR-DAY DEBATE OF THE DEVOLUTION WHITE PAPER RE-

VEALED PRECIOUS LITTLE SUPPORT FOR THE GOVERNMENT'S ORO-
POSALS. THE EOVERNMENT WAS ONLY SAVED FROM SERIOUS EMBAR-
RASSMENT BY THE CONSERVATIVE PARTY'S EQUIVOCATION AND UN-
ERTAINITY. FOLLOWING THE DEBATE, THE GOVERNMENT UNIT
CHARGED WITH DEVELOPING DEVOLUTION POLICY AND LEGISLATION
WAS SHAKEN-UP AND SENT BACK TO THE DRAWING BOARD.
SHORT OF REPUDIATING ITS ELECTORAL COMMITMENT TO DEVOLU-
TION TO SCOTLAND AND WALES, THE GOVERNMENT HAS TWO AL-
TERNATIVES: TO TRY TO TOUGH IT OUT WITH THE ORIGINAL
PROPOSALS, IN WHICH CASE FAILURE SEEMS FOREORDAINED; OR
TO SEEK TO BUILD A MAJORITY BY ACCOMMODATING THE VARYING
AND OFTEN CONDLICTING VIEWS EXPRESSED IN THE DEBATE' A
FORMIDABLE TAQK INDEED. EITHER WAY. DEVOLUTION PROMISES
TO BE A FOCUS OF CONTENTION THROUGHOUT THE CURRENT PAR-
LIAMENT, AND MNE WHICH COULD BRING DOWN THE GOVERNMENT AS
WELL AS SPLIT THE UK.

4. DESPITE THEIR GENERAL PARLIAMENTARY PUSILLANIMITY,
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CONSERVATIVES COULD FIND SOME CONSOLATION IN THE REACTION
TO AND MEDIA COVERAGE OF THEIR LEADER'S SPEECH ON PROPO-
SED DEFENSE CUTS AND THE SOVIET MENACE. IT WAS VINTAGE
WINE FOR THE THIRSTING PALATES OF THE PARTY FAITHFUL,
EVEN THOUGH IT IS UNLIKELY TO AFFECT THE GOVERNMENT'S
PLANS TO IMPOQE FURTHER CUTS IN DEFENSE SPENDING. FO-
REIGN POLICY UAS ANOTHER FOCAL POINT OF TORY ATTENTION,
WITH MRS. THATCHER TRAVELING TO EGYPT, SYRIA AND GERMANY
IN AN EFFORT TO STRENGTHEN HER CREDENTIALS IN THIS FIELD.
THE LONG-AWAITED SHAKE-UP OF THE CONSERVATIVE SHADOW CA-
BINET WAS ANNOUNCED IN MID-JANUARY. THE NET EFFECT WAS
TO STRENGTHEN THE FRONT BENCH SLIGHTLY, PARTICULARLY ON
THE DEFENSE SIDE.

5. AS EXPECTED, JANUARY SAW THE GOVERNMENT CAREFULLY
REJECT THE NOPTHERN IRELAND CONSTITUTIONAL CONVENTION
REPORT AND RECALL THE CONVENTION. PROTESTANT AND CATHO-
LIC POLITICAL LEADERS WERE TOLD BLUNTLY THAT FAILURE TO
REACH AGREEMELT ON FUTURE GOVERNMENTAL FORMS BY THE END
OF FEBRUARY WOULD MEAN CONTINUED DIRECT RULE FROM WEST-
MINSTER. THIS POSITION WAS COORDINATED WITH THE IRISH
GOVERNMENT. UITH SECTARIAN MURDER CONTINUING AND TERRO-
RIST BOMBING MN THE UPSWING, THERE IS LITTLE REASON TO
HOPE THE TWO SIDES WILL REACH AGREEMENT.

6. THE INTERLATIONAL SCENE WAS DOMINATED BY THE COD WAR
WITH ICELAND. THE CENTER OF ACTION SHIFTED FROM CONFRON-
TATION IN THE NORTH SEA TO DISCUSSIONS OVER THE LONDON
CONFERENCE TALE FOLLOWING NATO SECRETARY GENERAL LUNS'
VISIT TO REYKHAVIK. ICELANDIC PREMIER HALLGRIMSSON SPENT

FOUR DAYS IN LONDON BEFORE RETURNING TO ICELAND WITH A PROPOSED SETTLEMENT FORMULA FOR INTER-PARTY CONSIDERATION. IN THE INTERIM, THE BRITISH WITHDREW THE ROYAL NAVY, BUT ASKED THEIR FISHING FLEET TO REMAIN ON STATION AND PROMISED COMPENSATION FOR ANY LOSSES SUFFERED. ICELAND'S RESPONSE TO THE BRITISH PROPOSAL IS EXPECTED MOMENTARILY. THE UK'S RELATIONS WITH THE EC SEEMED TO IMPROVE, AND WHITEHALL'S DESIRE TO BE BETTER, IF STILL NOT "GOOD," EUROPEANS WAS PERCEPTIBLE. THUS FAR REACTIONS TO THE TINDEMANS' PROPOSALS ON EUROPEAN UNION HAVE BEEN CAUTIOUS AND UNENTHUSIASTIC. THOUGH THE GOVERNMENT HAS

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YET TO MAKE AN OFFICIAL STATEMENT.

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Message Attributes

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